

# **QUARTERLY REPORT**

**LICENSEE: ACE GAMING, LLC**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2004**

**TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY**

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

**BALANCE SHEETS**

AS OF SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	<b>ASSETS</b>		
	Current Assets:		
1	Cash and Cash Equivalents.....	\$ 19,164	\$ 16,500
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2004, \$4,175; 2003, \$6,598).....	4,535	4,402
4	Inventories.....	2,311	2,028
5	Prepaid Expenses and Other Current Assets..... Note 7.....	4,632	4,627
6	Total Current Assets.....	30,642	27,557
7	Investments, Advances, and Receivables..... Note 9.....	11,369	10,903
8	Property and Equipment - Gross..... Note 8.....	218,820	206,196
9	Less: Accumulated Depreciation and Amortization..... Note 8.....	(50,877)	(36,319)
10	Property and Equipment - Net..... Note 8.....	167,943	169,877
11	Other Assets.....	1,242	2,943
12	Total Assets.....	\$ 211,196	\$ 211,280
	<b>LIABILITIES AND EQUITY</b>		
	Current Liabilities:		
13	Accounts Payable.....	\$ 5,761	\$ 4,592
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	-	17,000
16	Other.....	-	-
17	Income Taxes Payable and Accrued..... Note 2.....	97	181
18	Other Accrued Expenses..... Note 10.....	11,386	10,541
19	Other Current Liabilities..... Note 11.....	3,692	2,719
20	Total Current Liabilities.....	20,936	35,033
	Long-Term Debt:		
21	Due to Affiliates.....	-	110,000
22	Other.....	-	-
23	Deferred Credits.....	-	-
24	Other Liabilities..... Note 12.....	3,959	3,655
25	Commitments and Contingencies.....		
26	Total Liabilities.....	24,895	148,688
27	Stockholders', Partners', Or Proprietor's Equity.....	186,301	62,592
28	Total Liabilities and Equity.....	\$ 211,196	\$ 211,280

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO  
**STATEMENTS OF INCOME**

Amended

2-16-05

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)

AMENDED

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	Revenue:		
1	Casino.....	\$ 47,934	\$ 48,907
2	Rooms.....	3,280	3,115
3	Food and Beverage.....	5,687	6,627
4	Other.....	874	1,047
5	Total Revenue.....	57,775	59,696
6	Less: Promotional Allowances.....	13,018	13,655
7	Net Revenue.....	44,757	46,041
	Costs And Expenses:		
8	Cost of Goods and Services.....	30,515	32,382
9	Selling, General, and Administrative.....	9,457	9,761
10	Provision for Doubtful Accounts.....	(85)	170
11	Total Costs and Expenses.....	39,887	42,313
12	Gross Operating Profit.....	4,870	3,728
13	Depreciation and Amortization.....	3,824	3,823
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) From Operations.....	1,046	(95)
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....	(699)	(2,949)
18	Interest (Expense) - External.....	(56)	(54)
19	Investment Alternative Tax and Related Income (Expense) - Net...	(300)	(291)
20	Nonoperating Income (Expense) - Net..... Note 13.....	(686)	181
21	Total Other Income (Expenses).....	(1,741)	(3,113)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	(695)	(3,208)
23	Provision (Credit) for Income Taxes..... Note 2.....	272	272
24	Income (Loss) Before Extraordinary Items.....	(967)	(3,480)
25	Extraordinary Items (Net of Income Taxes - 2004, \$ - ; 2003, \$ - ).....	-	-
26	Net Income (Loss).....	\$ (967)	\$ (3,480)

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO  
**STATEMENTS OF INCOME**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	Revenue:		
1	Casino.....	\$ 142,495	\$ 142,193
2	Rooms.....	8,342	8,530
3	Food and Beverage.....	16,472	16,802
4	Other.....	2,826	3,010
5	Total Revenue.....	170,135	170,535
6	Less: Promotional Allowances.....	38,592	38,663
7	Net Revenue.....	131,543	131,872
	Costs and Expenses:		
8	Cost of Goods and Services.....	89,006	92,599
9	Selling, General, and Administrative.....	26,744	25,931
10	Provision for Doubtful Accounts.....	262	858
11	Total Costs and Expenses.....	116,012	119,388
12	Gross Operating Profit.....	15,531	12,484
13	Depreciation and Amortization.....	11,327	10,926
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) From Operations.....	4,204	1,558
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates .....	(6,650)	(8,788)
18	Interest (Expense) - External.....	(162)	(173)
19	Investment Alternative Tax and Related Income (Expense) - Net....	(887)	(866)
20	Nonoperating Income (Expense) - Net..... Note 13.....	(2,335)	361
21	Total Other Income (Expenses).....	(10,034)	(9,466)
22	Income (Loss) Before Income Taxes And Extraordinary Items.....	(5,830)	(7,908)
23	Provision (Credit) for Income Taxes..... Note 2.....	785	615
24	Income (Loss) Before Extraordinary Items.....	(6,615)	(8,523)
25	Extraordinary Items (Net of Income Taxes - 2004, \$ - ; 2003, \$ - ).....	-	-
26	Net Income (Loss).....	\$ (6,615)	\$ (8,523)

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO  
**STATEMENTS OF CASH FLOWS**  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003  
 (UNAUDITED)

Amended

2-16-05

(\$ IN THOUSANDS)

AMENDED

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 4,044	\$ (615)
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....	-	-
3	Proceeds from the Sale of Short-Term Investment Securities.....	-	-
4	Cash Outflows for Property and Equipment.....	(9,393)	(10,615)
5	Proceeds from Disposition of Property and Equipment.....	38	110
6	Purchase of Casino Reinvestment Obligations.....	(1,551)	(1,714)
7	Purchase of Other Investments and Loans/Advances made.....	-	-
8	Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables.....	-	-
9	Cash Outflows to Acquire Business Entities (net of cash acquired).....	-	-
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(10,906)	(12,219)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....	-	10,500
14	Payments to Settle Short-Term Debt.....	-	-
15	Cash Proceeds from Issuance of Long-Term Debt.....	-	-
16	Costs of Issuing Debt.....	-	-
17	Payments to Settle Long-Term Debt.....	-	-
18	Cash Proceeds from Issuing Stock or Capital Contributions.....	9,123	-
19	Purchases of Treasury Stock.....	-	-
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	9,123	10,500
24	Net Increase (Decrease) In Cash And Cash Equivalents.....	2,261	(2,334)
25	Cash And Cash Equivalents At Beginning Of Period.....	16,903	18,834
26	Cash And Cash Equivalents At End Of Period.....	\$ 19,164	\$ 16,500

	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 10,744	\$ 12,100
28	Income Taxes.....	\$ 691	\$ 463

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO  
**STATEMENTS OF CASH FLOWS**

Amended

2-16-05

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)

(\$ IN THOUSANDS)

AMENDED

LINE	DESCRIPTION	2004	2003
(a)	(b)	(c)	(d)
	<b>NET CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
29	Net Income (Loss).....	\$ (6,615)	\$ (8,523)
	Noncash Items Included in Income and Cash Items		
	Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment....	10,863	10,357
31	Amortization of Other Assets.....	464	569
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	-	-
35	(Gain) Loss on Disposition of Property and Equipment.....	(38)	(104)
36	(Gain) Loss on Casino Reinvestment Obligations.....	887	866
37	(Gain) Loss from Other Investment Activities.....	-	-
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	773	598
39	Net (Increase) Decrease in Inventories.....	(89)	(177)
40	Net (Increase) Decrease in Other Current Assets.....	(1,291)	(588)
41	Net (Increase) Decrease in Other Assets.....	107	(9)
42	Net Increase (Decrease) in Accounts Payable.....	(1,054)	(1,007)
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	(179)	(2,874)
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	216	277
45			
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 4,044	\$ (615)

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>		
48	Additions to Property and Equipment.....	\$ 9,393	\$ 10,615
49	Less: Capital Lease Obligations Incurred.....	-	-
50	Cash Outflows For Property And Equipment.....	\$ 9,393	\$ 10,615
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
	Net Assets Acquired Other than Cash, Goodwill, and		
53	Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows To Acquire Business Entities.....	\$ -	\$ -
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>		
57	Total Issuances of Stock or Capital Contributions.....	\$ 9,123	\$ -
58	Less: Issuances to Settle Long-Term Debt.....	-	-
59	Consideration in Acquisition of Business Entities.....	-	-
60	Cash Proceeds From Issuing Stock Or Capital Contributions.....	\$ 9,123	\$ -

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

# STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2004

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2002 .....	100	\$ -		\$	89,659	\$	(18,544)	\$ 71,115
2	Net Income (Loss) - .....							(17,756)	(17,756)
3	Contribution to Paid-in-Capital.....								
4	Dividends.....								
5	Prior Period Adjustments.....								
6									
7									
8									
9									
10	Balance, December 31, 2003.....	100	-			89,659		(36,300)	53,359
11	Net Income (Loss) - 2004.....							(6,615)	(6,615)
12	Contribution to Paid-in - Capital.....					142,013			142,013
13	Dividends.....								
14	Prior Period Adjustments.....								
15	Return of Paid-in-Capital .....					(2,456)			(2,456)
16	Cancelled Common Stock .....	(100)							
17	Single Member LLC .....								
18									
19	Balance, September 30, 2004.....	-	\$ -		\$	229,216	\$	(42,915)	\$ 186,301

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

**SCHEDULE OF PROMOTIONAL  
EXPENSES AND ALLOWANCES**

(\$ IN THOUSANDS)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	228,939	\$ 5,624		\$
2	Food	406,496	5,627		
3	Beverage	1,656,794	3,928		
4	Travel			1,813	620
5	Bus Program Cash	483,446	8,636		
6	Other Cash Complimentaries	200,746	14,165		
7	Entertainment	6,994	380		
8	Retail & Non-Cash Gifts			494,984	3,645
9	Parking			125,759	378
10	Other	29,092	232		
11	Total	3,012,507	\$ 38,592	622,556	\$ 4,643

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	78,831	\$ 2,044		\$
2	Food	139,786	2,012		
3	Beverage	568,884	1,421		
4	Travel			766	192
5	Bus Program Cash	130,978	2,306		
6	Other Cash Complimentaries	64,670	5,165		
7	Entertainment	0	0		
8	Retail & Non-Cash Gifts			169,316	1,292
9	Parking			29,917	90
10	Other	8,773	70		
11	Total	991,922	\$ 13,018	199,999	\$ 1,574

## ACE GAMING, LLC

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### (1) Organization, Business and Basis of Presentation

The consolidated financial statements include the accounts of ACE Gaming, LLC ("ACE"), subsequent to July 21, 2004, and the accounts of Greate Bay Hotel and Casino, Inc. ("GBHC") which was a wholly-owned subsidiary of GB Holdings, Inc. ("GB Holdings") prior to July 22, 2004. Until July 22, 2004, GBHC was the owner and operator of The Sands Hotel and Casino in Atlantic City ("The Sands"). ACE a New Jersey limited liability company and a wholly-owned subsidiary of Atlantic Coast Entertainment Holdings, Inc. ("Atlantic Holdings"), was formed in November 2003. Atlantic Holdings and ACE were formed in connection with a transaction (the "Transaction"), in which Atlantic exchanged \$66.3 million of 11% Notes due 2005 (the "11% Notes"), issued by GB Property Funding Corp. ("Property"), a wholly-owned subsidiary of GB Holdings, for \$66.3 million 3% Notes due 2008 (the "3% Notes"), issued by Atlantic Holdings. The Transaction included, among other things, the transfer of substantially all of the assets of GB Holdings, Inc. to Atlantic Holdings. The transfer of net assets has been accounted for as an exchange of net assets between entities under common control, whereby the entity receiving the net assets shall initially recognize the assets and liabilities transferred at their historical carrying amount in the accounts of the transferring entity at the date of transfer. No gain or loss was recorded relating to the transfer. The 3% Notes, in connection with the closing of the transaction, are guaranteed on a joint and several basis by ACE. Atlantic Holdings and its subsidiary, ACE had limited operating activities prior to July 22, 2004. Also on July 22, in connection with the consummation of the Transaction and the Consent Solicitation and Offer to Exchange, Property and GBHC, merged into GB Holdings, with GB Holdings as the surviving entity. In connection with the transfer of the assets and liabilities of GB Holdings including those of GBHC, Atlantic Holdings issued 2,882,938 shares of Atlantic Holdings Common Stock to GBHC which following the merger of GBHC became the sole asset of GB Holdings. Substantially all of the assets, liabilities and operations of GB Holdings and GBHC, with the exception of the remaining 11% Notes due 2005 and accrued interest thereon, the Atlantic Holdings Common Stock, and the related pro rata share of deferred financing costs, were transferred to Atlantic Holdings or ACE. The Sands New Jersey gaming license was transferred to ACE in accordance with the approval of the New Jersey Casino Control Commission. All references to the "Company" include the continuing consolidated accounts of ACE and GBHC as owners and operators of the Sands.

The status of the GB Holdings 11% Notes due September 2005 with an outstanding balance of \$43.7 million at September 30, 2004, is currently being reviewed by senior management. The various alternatives for the redemption or refinancing of the Notes are being evaluated, as well as, the status of the current capital markets.

The financial statements were prepared following the requirements of the Casino Control Commission ("CCC") for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America can be condensed or omitted.

## ACE GAMING, LLC

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

All significant intercompany transactions and balances have been eliminated in consolidation. In management's opinion, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated financial position as of September 30, 2004 and the consolidated results of operations for the three and nine months ended September 30, 2004 and 2003 have been made. The results set forth in the consolidated statement of operations for the three and nine months ended September 30, 2004 are not necessarily indicative of the results to be expected for the full year.

#### **(2) Income Taxes**

Federal and State income tax benefits or provisions are based upon the results of operations for the current period and the estimated adjustments for income tax purposes of certain nondeductible expenses.

Due to recurring losses, the Company has not recorded a Federal or State income tax benefit for the three and nine months ended September 30, 2004. Management is unable to determine that realization of the Company's deferred tax assets are more likely than not, and, thus has provided a valuation allowance for the entire amount. The State income tax provision of \$272,000 for the three and nine months ended September 30, 2004, is comprised of applying the estimated annual effective tax rate to the book income before taxes at September 30, 2004.

#### **(3) Transactions with Related Parties**

The Company's rights to the trade name "Sands" (the "Trade Name") were derived from a license agreement with an unaffiliated third party. Amounts payable by the Company for these rights were equal to the amounts paid to the unaffiliated third party. The rights were assigned to the Company by High River Limited Partnership ("High River"), which obtained the rights under a certain agreement with the owner of the Trade Name to use the Trade Name as of September 29, 2000 through May 19, 2086 subject to termination rights for a fee after a certain minimum term. High River is an entity controlled by Carl C. Icahn (the Company's chairman and majority shareholder). High River received no payments for its assignment of these rights. Payment is made directly to the owner of the Trade Name. Such charges amounted to \$197,000 and \$203,000, respectively, for the nine months ended September 30, 2004 and 2003 and \$78,000 and \$73,000, respectively, for the three months ended September 30, 2004 and 2003. On or about July 14, 2004, Grete Bay Hotel and Casino, Inc. entered into a license agreement with Las Vegas Sands, Inc., for the use of the trade name "Sands" through May 19, 2086, subject to termination rights for a fee after a certain minimum term. This new license agreement superseded and replaced the above-mentioned trade name rights assigned to the Company by High River. By operation of the Consent Solicitation and Offer to Exchange discussed above, the July 14, 2004 license agreement was assigned to ACE Gaming, LLC as of July 22, 2004.

The Stratosphere Casino Hotel & Tower (the "Stratosphere"), an entity controlled by Carl C. Icahn, allocates a portion of certain executive salaries as well as charges for tax preparation to the Company. Payments for charges incurred from the Stratosphere for the nine months ended September 30, 2004 and 2003 were \$250,000 and \$143,000, respectively, and \$35,000 and \$35,000, respectively, for the three months ended September 30, 2004 and 2003.

## **ACE GAMING, LLC**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)**

On February 28, 2003, the Company entered into a two year agreement with XO New Jersey, Inc. a long-distance phone carrier controlled by Carl C. Icahn. The agreement can be extended beyond the minimum two year term on a month-to-month basis. Payments for charges incurred for the nine months ended September 30, 2004 were \$133,000 and \$89,000, respectively. Such charges amounted to \$52,000 and \$64,000, respectively, for the three months ended September 30, 2004 and 2003.

#### **(4) Legal Proceedings**

Tax appeals on behalf of the Company and the City of Atlantic City challenging the amount of the Company's real property assessments for tax years 1996 through 2003 are pending before the NJ Tax Court.

By letter dated January 23, 2004, Sheffield Enterprises, Inc. asserted potential claims against The Sands under the Lanham Act for permitting a show entitled The Main Event, to run at The Sands during 2001. Sheffield also asserts certain copyright infringement claims growing out of the Main Event performances. It has not yet been determined whether or not the claims made by Sheffield would, if adversely determined, materially impact the financial position or results of operations of the Company.

The Company is a party in various legal proceedings with respect to the conduct of casino and hotel operations and has been receiving employee related claims. Although a possible range of losses cannot be estimated, in the opinion of management, based upon the advice of counsel, the Company does not expect settlement or resolution of these proceedings or claims to have a material adverse impact upon their consolidated financial position or results of operations, but the outcome of litigation and the resolution of claims is subject to uncertainties and no assurances can be given. The consolidated financial statements do not include any adjustments that might result from these uncertainties.

#### **(5) Commitments and Contingencies**

In April 2004, the casino industry, the CRDA and the New Jersey Sports and Exposition Authority agreed to a plan regarding New Jersey video lottery terminals ("VLTs"). Under the plan, casinos will pay a total of \$96 million over a period of four years, of which \$10 million will fund, through project grants, North Jersey CRDA projects and \$86 million will be paid to the New Jersey Sports and Exposition Authority which will then subsidize certain New Jersey horse tracks to increase purses and attract higher-quality races that would allow them to compete with horse tracks in neighboring states. In return, the race tracks and New Jersey have committed to postpone any attempts to install VLTs for at least four years. \$52 million of the \$86 million would be donated by the CRDA from the casinos' North Jersey obligations and \$34 million would be paid by the casinos directly. It is currently estimated that The Sands current CRDA deposits for North Jersey projects are sufficient to fund The Sands proportionate obligations with respect to the \$10 million and \$52 million commitments. The Sands proportionate obligation with respect to the \$34 million commitment is estimated to be approximately \$1.3 million payable over a four year period in annual installments due October 15<sup>th</sup> ranging from \$278,000 to \$398,000 per year. The Sands proportionate obligation with respect to the combined \$10 million and \$52 million commitment is estimated to be approximately \$2.5 million payable over a four year period. The amounts will be charged to operations, on a straight-line basis, through January 1, 2009. The Sands made its initial cash payment of \$278,000 in satisfaction of this obligation during October 2004.

# ACE GAMING, LLC

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Unaudited)

### (6) Casino License Proceedings

Pursuant to New Jersey law, the corporate owner of the Sands is required to maintain a casino license in order to operate The Sands. The gaming licenses required to own and operate The Sands were required to be renewed in 2004, which required that the New Jersey Casino Control Commission ("CCC") determine that among other things, Atlantic Holdings and ACE are financially stable. In order to be found "financially stable" under the New Jersey Casino Control Act ("NJCCA"), Atlantic Holdings and ACE must demonstrate among other things, their ability to pay, exchange, or refinance debts that mature or otherwise become due and payable during the license term, or to otherwise manage such debts. During July 2004, The Sands filed a timely renewal application of its casino license for a four year term. The CCC approved The Sands casino license renewal application for a four year term on September 29, 2004 with certain conditions, including monthly written reports on the status of the 11% Notes, and a definitive plan to address the maturity of the 11% Notes to be submitted no later than August 1, 2005 as well as other standard industry reporting requirements.

### (7) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	September 30,	
	2004	2003
Prepaid Federal Income Taxes	\$ -	\$ 1,359,000
Prepaid insurance	603,000	942,000
Prepaid slot license fee	826,000	817,000
Deferred financing costs	2,091,000	-
Other current assets	1,112,000	1,509,000
	<u>\$ 4,632,000</u>	<u>\$ 4,627,000</u>

**ACE GAMING, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**(8) Property and Equipment**

Property and equipment consisted of the following:

	<b>September 30,</b>	
	<b>2004</b>	<b>2003</b>
Land	\$ 54,343,000	\$ 54,343,000
Buildings and improvements	88,512,000	92,747,000
Operating equipment	74,788,000	57,789,000
Construction in progress	1,177,000	1,317,000
	<u>218,820,000</u>	<u>206,196,000</u>
Less: accumulated depreciation and amortization	<u>(50,877,000)</u>	<u>(36,319,000)</u>
Net property and equipment	<u>\$ 167,943,000</u>	<u>\$ 169,877,000</u>

**(9) Investments, Advances and Receivables**

Investments, advances and receivables consisted of the following:

	<b>September 30,</b>	
	<b>2004</b>	<b>2003</b>
Vermont Plaza Investment, net	\$ 468,000	\$ 468,000
Post 1983 Investment, net	8,086,000	7,500,000
NJPB - MPMI Investment, net	1,058,000	993,000
Other	1,757,000	1,942,000
	<u>\$ 11,369,000</u>	<u>\$ 10,903,000</u>

**ACE GAMING, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

**(10) Other Accrued Expenses**

Other accrued expenses consisted of the following:

	<b>September 30,</b>	
	<b>2004</b>	<b>2003</b>
Accrued wages	\$ 1,530,000	\$ 1,323,000
Accrued vacation	1,619,000	1,556,000
Major Medical - Non-union	1,167,000	703,000
Other accrued expenses	7,070,000	6,959,000
	<u>\$ 11,386,000</u>	<u>\$ 10,541,000</u>

**(11) Other Current Liabilities**

Other current liabilities consisted of the following:

	<b>September 30,</b>	
	<b>2004</b>	<b>2003</b>
Workers Comp liability	\$ 1,185,000	\$ -
Unredeemed gaming chips	688,000	577,000
CRDA bonds payable	589,000	597,000
Other current liabilities	1,230,000	1,545,000
	<u>\$ 3,692,000</u>	<u>\$ 2,719,000</u>

**(12) Other Liabilities**

Other liabilities consisted of the following:

	<b>September 30,</b>	
	<b>2004</b>	<b>2003</b>
CRDA - East Hall	\$ 3,389,000	\$ 3,236,000
Other current liabilities	570,000	419,000
	<u>\$ 3,959,000</u>	<u>\$ 3,655,000</u>

**ACE GAMING, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

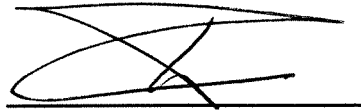
**(13) Non-operating Income (Expense) – Net**

Non-operating income (expense) – net is comprised of the following:

	September 30,	
	2004	2003
Interest income	\$ 18,000	\$ 17,000
CRDA interest income	251,000	274,000
CRDA interest income - reserve	(34,000)	(34,000)
Gain/loss property disposal	38,000	104,000
Reorganization Expense - professional fees	(2,608,000)	-
	<u>\$ (2,335,000)</u>	<u>\$ 361,000</u>

STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



Signature

Douglas S. Niethold  
Vice President, Finance

Title

2892-11

License Number

On Behalf Of:

ACE Gaming, LLC  
Casino Licensee